

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENTS AUDIT REPORT

CITY OF VALPARAISO UTILITIES

PORTER COUNTY, INDIANA

January 1, 2018 to December 31, 2018



FILED
09/09/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Jon Costas	01-01-16 to 12-31-19
Executive Director	Steve Poulos	01-01-18 to 12-31-19
Chief Financial Officer	Alina Hahn	01-01-18 to 12-31-19
President of the Utilities Board of Directors	David Bengs	01-01-18 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF VALPARAISO UTILITIES, PORTER COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the City of Valparaiso Utilities (Utilities), departments of the City of Valparaiso (City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for each major fund for the Utilities, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter

As discussed in Note 1.A., the financial statements of the Utilities, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of each major fund of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City as of December 31, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net OPEB Liability, Schedule of Net OPEB Liability, and Schedule of Employer Contributions, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

July 29, 2019

BASIC FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were prepared by management of the Utilities. The financial statements and notes are presented as intended by the Utilities.

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2018

	2018	
<u>Assets</u>	<u>Water</u>	<u>Water Reclamation</u>
Current assets:		
Cash and cash equivalents	\$ 2,655,854	\$ 1,837,421
Accounts receivable (net of allowance)	526,948	707,351
Other receivables	1,965	-
Collections held for others	37,898	-
Inventories	99,153	177,368
Total current assets	<u>3,321,818</u>	<u>2,722,140</u>
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Revenue bond covenant account	1,880,310	803,848
Reserve for Pratt bond	-	800,024
Improvement	4,642,552	7,356,887
Reserve for SRF loan	-	1,032,586
Construction account	1,318,269	156,479
Tank painting and maintenance	273,353	-
Customer deposits	51,230	-
Note receivable	-	69,100
Total restricted assets	<u>8,165,714</u>	<u>10,218,924</u>
Capital assets:		
Land, improvements to land and construction in progress	1,140,303	691,668
Other capital assets (net of accumulated depreciation)	64,397,279	40,903,457
Total capital assets	<u>65,537,582</u>	<u>41,595,125</u>
Total noncurrent assets	<u>73,703,296</u>	<u>51,814,049</u>
Total assets	<u>\$ 77,025,114</u>	<u>\$ 54,536,189</u>
<u>Deferred Outflows of Resources</u>		
Deferred OPEB items	<u>\$ 16,843</u>	<u>\$ 8,357</u>

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES
STATEMENT OF NET POSITION
December 31, 2018

	2018	
	Water	Water Reclamation
<u>Liabilities, Deferred Inflows and Net Position</u>		
Current liabilities:		
Accounts payable	\$ 281,328	\$ 363,370
Taxes payable	22,118	-
Accrued wages and benefits payable	97,151	90,797
Compensated absences	7,126	4,987
Deferred revenue	-	58,000
Current liabilities payable from restricted assets:		
Customer deposits payable	52,005	-
Revenue bonds payable (current)	985,000	1,295,000
SRF loan	-	69,000
Leases payable	61,714	186,829
Accrued interest payable	161,313	230,871
Total current liabilities	<u>1,667,755</u>	<u>2,298,854</u>
Noncurrent liabilities:		
Revenue bonds payable (net of unamortized discount)	20,038,875	14,755,056
SRF loan payable	-	1,039,000
Leases payable	560,000	788,952
Pratt DSR due to RDC payable	-	800,024
Compensated absences payable	156,313	109,392
Other post employment benefits obligation	239,761	163,643
Total noncurrent liabilities	<u>20,994,949</u>	<u>17,656,067</u>
Total liabilities	<u>\$ 22,662,704</u>	<u>\$ 19,954,921</u>
<u>Deferred Inflows of Resources</u>		
Deferred OPEB items	60,478	34,754
Deferred inflows	-	117,500
Total deferred inflows of resources	<u>\$ 60,478</u>	<u>\$ 152,254</u>
<u>Net Position</u>		
Invested in capital assets, net of related debt	\$ 43,891,993	\$ 23,461,288
Restricted for debt service	1,880,310	1,836,434
Restricted for other purposes	6,323,302	7,513,366
Unrestricted	<u>2,223,170</u>	<u>1,626,283</u>
Total net position	<u>\$ 54,318,775</u>	<u>\$ 34,437,371</u>

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For The Year Ended December 31, 2018

	2018	
	Water	Water Reclamation
Operating Revenues:		
Metered water revenue:		
Residential	\$ 3,491,593	\$ -
Commercial	1,102,923	-
Industrial	1,436,250	-
Multiple family dwellings	1,074,059	-
Public authorities	206,842	-
Water reclamation collection and treatment revenue	-	9,882,600
Water reclamation surcharges	-	24,952
Fire protection revenue	1,157,568	-
Penalties	22,289	67,496
Other	1,073,120	385,350
Total operating revenues	<u>9,564,644</u>	<u>10,360,398</u>
Operating expenses:		
Transmission and distribution	1,178,546	-
Pumping - operations and maintenance	653,434	135,965
Treatment and disposal - operations and maintenance	989,006	-
Customer accounts	803,491	-
Administration and general	1,168,178	1,680,324
Reclaimed water treatment - operations and maintenance	-	2,611,627
Reclaimed water distribution - operations and maintenance	-	919,031
Depreciation	1,526,483	3,187,133
Total operating expenses	<u>6,319,138</u>	<u>8,534,080</u>
Operating income (loss)	<u>3,245,506</u>	<u>1,826,318</u>
Nonoperating revenues (expenses):		
Interest and investment revenue	110,888	138,803
Miscellaneous revenue	15,655	-
Interest expense	(723,435)	(529,514)
Bond issuance costs	(89,534)	-
Pratt Surcharge	-	1,277,002
Payments to RDC	-	(1,277,002)
Transfers	81,297	(81,297)
Total nonoperating revenues (expenses)	<u>(605,129)</u>	<u>(472,008)</u>
Income (loss) before contributions and transfers	<u>2,640,377</u>	<u>1,354,310</u>
Contributions and Transfers:		
Contributions	575,039	1,465,783
In lieu of taxes	(759,643)	(771,845)
Total contributions and transfers	<u>(184,604)</u>	<u>693,938</u>
Change in net position	2,455,773	2,048,248
Total net position - beginning	<u>51,863,002</u>	<u>32,389,123</u>
Total net position - ending	<u>\$ 54,318,775</u>	<u>\$ 34,437,371</u>

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

	2018	
	Water	Water Reclamation
Cash flows from operating activities:		
Receipts from customers and users	\$ 9,833,629	\$ 10,386,471
Payments to suppliers and contractors and employees and benefits	(4,658,229)	(5,583,648)
Net cash provided by operating activities	5,175,400	4,802,823
Cash from noncapital financing activities:		
Nonoperating receipts	15,655	-
Transfers in (out)	81,297	(81,297)
In lieu of taxes	(759,643)	(771,845)
Net cash provided (used) by noncapital financing activities	(662,691)	(853,142)
Cash flows from capital and related financing activities:		
Contributions	575,039	16,120
Acquisition and construction of capital assets	(1,915,932)	(1,021,556)
Pratt surcharge collected	-	1,277,002
Payment to RDC	-	(1,176,994)
2018 refunding bond proceeds	2,183,409	-
To refund 2010 bonds	(2,111,578)	-
Bond issuance costs	(89,534)	-
Principal paid on capital debt	(955,000)	(1,270,000)
Principal paid on loans	-	(67,000)
Interest paid on capital debt	(661,425)	(534,543)
Interest paid on loans	-	(39,041)
Principal paid on capital lease	(63,759)	(135,543)
Interest paid on capital lease	(28,935)	(33,770)
Notes receivable	-	12,100
Net cash provided (used) by capital and related financing activities	(3,067,715)	(2,973,225)
Cash flows from investing activities:		
Interest received	110,888	138,803
Net increase (decrease) in cash and cash equivalents	1,555,882	1,115,259
Cash and cash equivalents, January 1	9,265,686	10,871,986
Cash and cash equivalents, December 31	\$ 10,821,568	\$ 11,987,245
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 3,245,506	\$ 1,826,318
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	\$ 1,526,483	\$ 3,187,133
Amortization		
(Increase) decrease in assets:		
Accounts receivable	40,296	26,073
Other receivables	228,689	-
Inventories	21,414	(24,822)
Increase (decrease) in liabilities:		
Accounts payable	91,082	(209,749)
Taxes payable	487	-
Accrued wages and benefits payable	15,433	(5,507)
Compensated absence payable	4,945	(638)
Net other post-employment benefits obligation	9,670	4,015
Customer deposits	(8,605)	-
Retainage payable	-	-
Total adjustments	1,929,894	2,976,505
Net cash provided by operating activities	\$ 5,175,400	\$ 4,802,823
Noncash investing, capital and financing activities:		
Contributions of Assets	\$ -	\$ 1,449,663
Purchase of equipment by issuing lease payable	-	235,616

The notes to the financial statements are an integral part of this statement.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Valparaiso (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represents a substantial portion of the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utility's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

The deferred compensation plan amounts are invested with a bank. The bank offers a range of investments and the participants choose how their earnings are invested.

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

The financial statements report \$8,165,714 and \$10,218,924 for the Water and Water Reclamation Utilities, respectively, of restricted assets, of which all is restricted by enabling legislation.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method
Water Utility:		
Buildings	\$ 5,000	2% Composite rate
Improvements other than buildings	5,000	2% Composite rate
Machinery and equipment	5,000	2% Composite rate
Infrastructure	5,000	2% Composite rate
Water Reclamation Utility:		
Buildings	5,000	2% Composite rate
Improvements other than buildings	5,000	2% Composite rate
Distribution and collection systems:		
Sewer lines	5,000	1% Composite rate
Treatment center	5,000	5% Composite rate
Machinery and Equipment:		
Pumping equipment	5,000	5% Composite rate
Transportation equipment	5,000	20% Composite rate
Office furniture and equipment	5,000	20% Composite rate
Machinery and equipment	5,000	10% Composite rate
Infrastructure	5,000	2% Composite rate

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

5. Compensated Absences

The policy on compensated absences, which includes all leave as paid time-off, was adopted by the Utilities on July 31, 2007. Paid time-off may be used for vacation, sick, family illness, and personal business. Paid time-off is accrued on the first day of the month following an employee's hire date. Utility employees earn paid time-off rates from 96 to 264 hours per year based upon the number of years of service and regularly scheduled work hours.

Upon termination of employment, an employee may be paid for unused accrued paid time-off. The maximum paid time-off an employee will be eligible to receive is 240 hours for an employee who is regularly scheduled to work 40 hours per week.

A liability is reported by the Utilities for paid time-off.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

7. Deferred Outflows and Deferred Inflows

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, represents a consumption of net position that applies to future reporting periods and so will not be recognized as an outflow of resources (expense/expenditure/reduction of liability) until then. The government has one item that qualifies for reporting in this category. The deferred outflow for other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, represents an acquisition of net position that applies to future reporting periods and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items, one, the Water Reclamation Utility has an agreement with an organization for future improvements. The second deferred inflow is for pension items.

8. Future Adoption of Accounting Pronouncements

GASB has issued Statement No. 82, *Pension Issues*; Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 85, *Omnibus*; Statement No. 86, *Certain Debt Extinguishment Issues*; Statement No. 87, *Leases*; and Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The Utilities intend to implement these GASB Statements, as applicable, on their respective effective dates.

E. Rounding Differences

The financial statements may contain immaterial differences due to rounding of amounts when the statements were compiled. These differences are considered immaterial and do not affect the overall presentation of the financial statements

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2018, the Water and Water Reclamation Utilities had deposit balances in the amount of \$10,821,568 and \$11,987,245, respectively.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

<u>2018</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 1,140,303	\$ -	\$ -	\$ 1,140,303
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,140,303</u>	<u>-</u>	<u>-</u>	<u>1,140,303</u>
Capital assets, being depreciated:				
Buildings	7,399,709	364,727	(268,844)	7,495,592
Improvements other than buildings	610,938	-	-	610,938
Infrastructure	47,982,790	1,173,742	(55,195)	49,101,337
Machinery, equipment, and vehicles	19,031,357	383,682	(298,777)	19,116,262
Totals	<u>75,024,794</u>	<u>1,922,151</u>	<u>(622,816)</u>	<u>76,324,129</u>
Less accumulated depreciation for:				
Building	(1,088,805)	(149,912)	268,844	(969,873)
Improvements other than buildings	(162,249)	(12,219)	-	(174,468)
Infrastructure	(7,723,718)	(982,027)	55,195	(8,650,550)
Machinery, equipment, and vehicles	(2,042,191)	(382,325)	292,557	(2,131,959)
Totals	<u>(11,016,963)</u>	<u>(1,526,483)</u>	<u>616,596</u>	<u>(11,926,850)</u>
Total capital assets, being depreciated, net	<u>64,007,831</u>	<u>395,668</u>	<u>(6,220)</u>	<u>64,397,279</u>
Total capital assets, net	<u>\$ 65,148,134</u>	<u>\$ 395,668</u>	<u>\$ (6,220)</u>	<u>\$ 65,537,582</u>

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

<u>2018</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Reclamation Utility:				
Capital assets, not being depreciated:				
Land	\$ 575,915	\$ 115,753	\$ -	\$ 691,668
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>575,915</u>	<u>115,753</u>	<u>-</u>	<u>691,668</u>
Capital assets, being depreciated:				
Building	27,387,274	43,563	-	27,430,837
Improvements other than buildings	105,706	17,896	-	123,602
Machinery, equipment, and vehicles	34,661,505	1,088,707	(310,619)	35,439,593
Infrastructure	<u>37,099,096</u>	<u>1,469,915</u>	<u>(686)</u>	<u>38,568,324</u>
Totals	<u>99,253,581</u>	<u>2,620,081</u>	<u>(311,305)</u>	<u>101,562,357</u>
Less accumulated depreciation for:				
Building	(6,518,024)	(548,617)	-	(7,066,641)
Improvements other than buildings	(6,133,363)	(2,472)	-	(6,135,835)
Machinery, equipment, and vehicles	(20,828,040)	(2,242,033)	281,619	(22,788,454)
Infrastructure	<u>(24,274,644)</u>	<u>(394,011)</u>	<u>686</u>	<u>(24,667,969)</u>
Totals	<u>(57,754,071)</u>	<u>(3,187,133)</u>	<u>282,305</u>	<u>(60,658,899)</u>
Total capital assets, being depreciated, net	<u>41,499,510</u>	<u>(567,052)</u>	<u>(29,000)</u>	<u>40,903,457</u>
Total capital assets, net	<u>\$ 42,075,425</u>	<u>\$ (451,299)</u>	<u>\$ (29,000)</u>	<u>\$ 41,595,125</u>

Depreciation expense was charged to functions/programs of the Utilities as follows:

	<u>2018</u>
Water	\$ 1,526,483
Water Reclamation	<u>3,187,133</u>
Total depreciation expense	<u>\$ 4,713,616</u>

C. Construction Commitments

The Utilities did not have any Construction work in progress as of December 31, 2018.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

D. Leases

Capital Leases

The Water and Water Reclamation Utilities have entered into a capital lease for their portion of the new Public Works Facility. The Utilities also have capital leases for machinery and equipment purchases. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2018, are as follows:

	Water Utility	Water Reclamation Utility
2019	\$ 92,693	\$ 221,844
2020	64,250	220,594
2021	64,000	145,128
2022	65,000	65,000
2023	65,750	65,750
2024-2028	324,750	324,750
2029-2033	162,250	162,250
Sub-Total	838,693	1,205,316
Less amount representing interest	(216,979)	(229,537)
Present value of net minimum lease payments	<u>\$ 621,714</u>	<u>\$ 975,780</u>

Assets acquired through capital leases still in effect are as follows:

	Water Utility	Water Reclamation Utility
Machinery and equipment	\$ 136,764	\$ 784,515
Building	750,000	750,000
Accumulated depreciation	(83,206)	(318,283)
Totals	<u>\$ 803,558</u>	<u>\$ 1,216,232</u>

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

Purpose	Interest Rates	Balance at December 31	Less: Unamortized (Premium) Discount	Amount
Water Utility:				
2013 Water Utility: Improvements	2.17%	\$ 2,345,000	\$ -	\$ 2,345,000
2014A Water Utility: Improvements	2%-3.625%	9,980,000	(70,067)	10,050,067
2014B Water Utility: Improvements	2.70%	6,455,000	-	6,455,000
2018 Water Utility: Refunding	2.25% - 3%	2,150,000	(23,808)	2,173,808
Total		<u>\$ 20,930,000</u>	<u>\$ (93,875)</u>	<u>\$ 21,023,875</u>
Water Reclamation Utility:				
2013 Refunding Revenue Bonds	1.99%	\$ 3,005,000	\$ -	\$ 3,005,000
2015 Refunding Revenue Bonds	3%-4%	10,200,000	(591,851)	10,791,851
2015 Water Reclamation Utility: Improvements	2%-3.375%	2,235,000	(18,205)	2,253,205
Total		<u>\$ 15,440,000</u>	<u>\$ (610,055)</u>	<u>\$ 16,050,055</u>

Revenue bonds debt service requirements to maturity are as follows:

	Water		Water Reclamation	
	Principal	Interest	Principal	Interest
2019	\$ 985,000	\$ 637,456	\$ 1,295,000	\$ 509,110
2020	1,005,000	613,627	1,315,000	483,229
2021	1,025,000	589,324	1,370,000	456,626
2022	1,045,000	564,535	1,440,000	417,956
2023	1,060,000	539,129	1,490,000	371,081
2024-2028	5,830,000	2,242,793	7,515,000	923,931
2029-2033	6,880,000	1,260,371	760,000	113,175
2034-2038	3,100,000	141,647	255,000	8,606
Totals	<u>\$ 20,930,000</u>	<u>\$ 6,588,882</u>	<u>\$ 15,440,000</u>	<u>\$ 3,283,714</u>

2. Loans Payable

The Water Reclamation Utility has entered into various loan agreements (State Revolving Loan Fund (SRF)). Annual debt service requirements to maturity for the loans (based upon having drawn down all of the funds), are as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

	Water Reclamation Utility	
	Principal	Interest
2019	\$ 69,000	\$ 36,767
2020	71,000	34,425
2021	74,000	31,998
2022	77,000	29,488
2023	79,000	26,876
2024-2028	438,000	92,119
2029-2033	300,000	17,912
Totals	<u>\$ 1,108,000</u>	<u>\$ 269,585</u>

As of December 31, 2018, all of the funds had been drawn down. The liability reported in the financial statements for loans payable is based upon the actual funds drawn as of December 31, 2018.

3. Pratt Payable

On December 29, 2015, the City of Valparaiso issued \$10,000,000 of its Taxable Economic Development Revenue Bonds, Series 2015 for the purpose of paying for sewage pretreatment facilities located at Pratt Paper (IN) LLC (Pratt), to partially fund a Debt Service Reserve and to pay issuance expenses per ordinance No. 32, 2014. A transfer of \$500,000 was made to partially fund the Debt Service Reserve. Ordinance No. 33, 2014 requires the remaining debt service reserve be funded with monthly transfers of \$8,334 over a five-year period. In addition, monthly bond and interest transfers will be made by Pratt to the Water Reclamation Utility in the form of a monthly debt service surcharge. These funds are transferred to the City's Redevelopment Commission (RDC) in order to pay the semiannual bond payments.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Utility					
Revenue bonds payable	\$ 21,805,000	\$ 2,170,000	\$ 3,045,000	\$ 20,930,000	\$ 985,000
Add: premium	74,188	25,344	5,657	93,875	-
Less: discount	17,909	-	17,909	-	-
Total revenue bonds payable	21,861,279	2,195,344	3,032,748	21,023,875	985,000
Capital lease	685,473	-	63,754	621,714	61,714
Compensated absences	158,494	4,945	-	163,439	7,126
Other post employment benefits obligations	270,245	-	30,484	239,761	-
Total Long-term liabilities	<u>\$ 22,975,491</u>	<u>\$ 2,200,289</u>	<u>\$ 3,126,986</u>	<u>\$ 22,048,789</u>	<u>\$ 1,053,840</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Reclamation Utility					
Revenue bonds payable	\$ 16,710,000	\$ -	\$ 1,270,000	\$ 15,440,000	\$ 1,295,000
Add: premium	676,345	-	66,290	610,055	-
Less: discount	-	-	-	-	-
Total revenue bonds payable	17,386,345	-	1,336,290	16,050,055	1,295,000
Loans payable	1,175,000	-	67,000	1,108,000	69,000
Capital lease	875,707	235,617	135,544	975,780	186,829
Compensated absences	115,017	-	638	114,379	4,987
Other post employment benefits obligations	190,332	-	26,689	163,643	-
Pratt project	700,016	100,008	-	800,024	-
Total Long-term liabilities	<u>\$ 20,442,417</u>	<u>\$ 335,625</u>	<u>\$ 1,566,161</u>	<u>\$ 19,211,881</u>	<u>\$ 1,555,816</u>

F. Restricted Assets

The balances of restricted asset accounts are as follows:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

	Water Utility 2018	Water Reclamation Utility 2018
Revenue bond covenant account	\$ 1,880,310	\$ 803,848
Improvement	4,642,552	7,356,887
Reserve for SRF loan	-	1,032,586
Construction account	1,318,269	156,479
Tank Painting and Maintenance	273,353	-
Reserve for Pratt Bond	-	800,024
Customer deposits	51,230	-
Total restricted assets	<u>\$ 8,165,714</u>	<u>\$ 10,149,824</u>

G. Revenues Pledged

Water Utility Revenues Pledged

The Utility has pledged future water revenues, net of specified operating expenditures, to repay revenue bonds issued in 2014A&B and refunding revenue bonds in 2013 and 2018. Proceeds from the bonds provided financing for waterworks improvements. The bonds are payable solely from water net revenues and are payable through 2022, 2026, 2028 and 2035. Annual principal and interest payments are expected to require less than 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$27,518,882. Principal and interest paid for the current year and total operating revenues were \$1,616,425 and \$9,564,643, respectively.

Water Reclamation Utility Revenues Pledged

The Utility has pledged future wastewater revenues, net of specified operating expenditures, to repay revenue bonds issued in 2011 and 2015 and refunding revenue bonds in 2013 and 2015. Proceeds from the bonds provided financing for wastewater collection and treatment system improvements. The bonds are payable solely from wastewater net revenues and are payable through 2021, 2028, 2031 and 2035. Annual principal and interest payments are expected to require less than 17 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$18,723,714. Principal and interest paid for the current year and total operating revenues were \$1,804,543 and \$10,360,398, respectively.

H. Refunding of Debt

2010 Series Water Bond Refunding

On June 12, 2018, the City of Valparaiso Water Utility issued \$2,170,000 in refunding revenue bonds with an average interest rate of 2.705% to refund \$2,080,000 of outstanding 2010 series bonds with an average interest rate of 4.213%. The refunding, after all expenses and cash applied, provided a savings of \$102,332.81 (net present value of \$88,427.81) which, as a percentage of the Refunded Bonds, provided savings of 4.9%.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk. Risk financing is not utilized for the other risks of loss.

Medical Benefits to Employees, Retirees, and Dependents (Excluding Postemployment Benefits)

To create cost savings, the City (including the Utilities) decided to offer other medical insurance alternatives on January 1, 2013. Covered participants were given a choice of either a Health Savings Account (HSA) with a high deductible or a Traditional PPO. Coverage is provided by United Healthcare in conjunction with the Accelerate Indiana Municipalities (AIM) Medical Trust.

B. Other Postemployment Benefits

Plan Description

The Utilities are members of the Accelerate Indiana Municipalities (AIM) Medical Trust. The Trust is a multiple employer cost sharing health plan and operates under a self-insured arrangement. Indiana Code 5-10-8 assigns the authority to establish and amend benefit provisions to the Utility. The Utilities contracted with Nyhart Actuary & Employee Benefits to provide the accrued actuarial liability for these benefits. The actuarial report for the plan is publicly available and includes the required supplementary information for the plan as a whole and for the participants. The report may be obtained by contacting the Utilities Financial CFO:

Valparaiso City Utilities
Financial Department
205 Billings St
Valparaiso, IN 46383

Benefits

The Accelerate Indiana Municipalities (AIM) Medical Trust provides healthcare and dental benefits for retirees and their dependents for non-Medicare eligible employees. Currently retirees are required to pay 100% of the monthly premium. Retiree health coverage is implicitly more expensive than active health coverage. The higher cost of coverage creates a liability that the Utilities pays in higher premiums for current employees' coverage.

Contributions

Calculated required contributions are based on projected pay-as-you-go financing requirements. For the year ended December 31, 2018, the Utilities contributed \$13,341 to the plan.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

	Water	Water Reclamation
Annual required contribution	\$ 11,968	\$ 8,168
Interest on net OPEB obligation	10,031	6,847
Adjustment to annual required contribution	<u>(44,554)</u>	<u>(36,292)</u>
Annual OPEB cost	(22,555)	(21,277)
Contributions made	<u>(7,929)</u>	<u>(5,412)</u>
Increase (decrease) in net OPEB obligation	(30,484)	(26,689)
Net OPEB obligation, beginning of year	<u>270,245</u>	<u>190,332</u>
Net OPEB obligation, end of year	<u>\$ 239,761</u>	<u>\$ 163,643</u>

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

At December 31, 2018, the Utilities reported a liability of \$403,404 for its net OPEB liability. The net OPEB liability was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Utilities' OPEB liability was based on actuarial valuation of the Valparaiso City Utilities.

For the year ended December 31, 2018, the Utilities recognized OPEB expense of \$27,026. At December 31, 2018, the Utilities reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Water Utility:		
Differences between expected and actual experience	\$ -	\$ 60,478
Net difference between projected and actual investment earnings on pension plan investments	-	-
Change of assumptions	16,843	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Utility contributions subsequent to the measurement date	-	-
Totals	<u>\$ 16,843</u>	<u>\$ 60,478</u>
Water Reclamation Utility		
Differences between expected and actual experience	\$ -	\$ 34,754
Net difference between projected and actual investment earnings on pension plan investments	-	-
Change of assumptions	8,357	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Utility contributions subsequent to the measurement date	-	-
Totals	<u>\$ 8,357</u>	<u>\$ 34,754</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Year Ended December 31, 2018	
	Water Utility	Water Reclamation Utility
2019	\$ (6,223)	\$ (3,765)
2020	(6,223)	(3,765)
2021	(6,223)	(3,765)
2022	(6,223)	(3,765)
2023	(6,223)	(3,765)
Thereafter	(12,519)	(7,573)
Total	<u>\$ (43,635)</u>	<u>\$ (26,397)</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified:

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

Experience Study Date	N/A - No current study
Investment Rate of Return	N/A - No investments
Future Salary Increases	2.50% to 4.25%
Inflation	2.25%

The plan does not have any investments and no long-term rate of return was calculated.

Discount Rate:

The discount rate used to measure the total OPEB liability was 4.11%. The discount rate used in valuing OPEB liabilities for unfunded plans as of the measurement date must be based on a yield for 20-year tax-exempt general obligation municipal bonds.

The discount rate increased from 3.56% as of December 31, 2017 to 4.11% for the period ending December 31, 2018.

Sensitivity to Changes in the Discount Rate

The following presents the Utilities' proportionate share of the net OPEB liability, as well as what the Utilities' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.11 percent) or 1-percentage-point higher (5.11 percent) than the current discount rate:

	3.11%	4.11%	5.11%
Net OPEB Liability:	1% Decrease	Current Rate	1% Increase
Water Utility	\$ 257,883	\$ 239,761	\$ 222,612
Water Reclamation Utility	176,011	163,643	151,939

Sensitivity to Changes in the Healthcare Cost Trend Rate

The following presents the Utilities' proportionate share of the net OPEB liability, as well as what the Utilities' proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent decreasing to 5.0 percent) or 1-percentage-point higher (9.5 Percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	8.5% decreasing to 5.0%	7.5% decreasing to 4.0%	9.5% decreasing to 6.0%
Net OPEB Liability:	1% Decrease	Current Rate	1% Increase
Water Utility	\$ 213,552	\$ 239,761	\$ 270,435
Water Reclamation Utility	145,754	163,643	184,579

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Utility on November 25, 2013.

CITY OF VALPARAISO UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Continued)

2. Water Reclamation Utility

The current rate structure was approved by the Utility on November 25, 2013.

D. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Water Utility has a defined contribution pension plan administered by Centier Bank as authorized by Indiana Code 8-1.5-3-7. The employees of both the Water and Water Reclamation Utilities participate in the plan, which provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the Utilities and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Centier Bank
4th Floor Wealth Management
600 East 84th Avenue
Merrillville, IN 46410-6366
Phone (219) 755-6110

Funding Policy and Annual Pension Cost

The plan provides for up to 6 percent salary contributions per pay by the employees to be matched 100 percent by the employer, after 9 months of consecutive employment. The employee can also make additional voluntary contributions allowable by applicable IRS rules. The additional contribution is not matched by the employer. Employer and employee contributions to the plan were \$180,049 and \$284,748, respectively.

E. Subsequent Events

There are no subsequent events at this time.

CITY OF VALPARAISO UTILITIES
Schedules of Required Supplementary Information
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
Last 10 Years*

NET OPEB LIABILITY	2018		2017	
	Water	Water Reclamation	Water	Water Reclamation
TOTAL OPEB LIABILITY				
Service cost	\$ 12,565	\$ 7,571	\$ 13,264	\$ 9,342
Interest	10,532	6,346	9,610	6,768
Change in Plan Provisions	-	-	-	-
Changes in assumptions	(9,366)	(7,220)	19,715	13,885
Differences between expected and actual experience	(36,286)	(27,974)	(19,161)	(13,495)
Benefit payments	(7,929)	(5,412)	(10,728)	(7,555)
Net change in Total Pension Liability	(30,484)	(26,689)	12,700	8,945
Total pension liability - beginning of year	270,245	190,332	257,545	181,387
Total pension liability - end of year (1)	<u>\$ 239,761</u>	<u>\$ 163,643</u>	<u>\$ 270,245</u>	<u>\$ 190,332</u>
PLAN FIDUCIARY NET POSITION				
Contributions	\$ 7,929	\$ 5,412	\$ 10,728	\$ 7,555
Net Transfers into (out of) Trust	-	-	-	-
Net investment income	-	-	-	-
Benefit payments	(7,929)	(5,412)	(10,728)	(7,555)
Administrative expenses	-	-	-	-
Other	-	-	-	-
Net change in Plan Fiduciary Net Position	-	-	-	-
Plan fiduciary net position - beginning of year	-	-	-	-
Plan fiduciary net position - end of year (2)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Pension Liability (Asset) - End of Year (1) - (2)	<u>\$ 239,761</u>	<u>\$ 163,643</u>	<u>\$ 270,245</u>	<u>\$ 190,332</u>

Notes to Schedule:

*Information presented for the years information is available

CITY OF VALPARAISO UTILITIES
Schedules of Required Supplementary Information
SCHEDULE OF NET OPEB LIABILITY
Last 10 Years*

	2018		2017	
	Water	Water Reclamation	Water	Water Reclamation
1. Total OPEB Liability	\$ 239,761	\$ 163,643	\$ 270,245	\$ 190,332
2. Plan Fiduciary Net Position	-	-	-	-
3. Total OPEB Liability	<u>\$ 239,761</u>	<u>\$ 163,643</u>	<u>\$ 270,245</u>	<u>\$ 190,332</u>
4. Plan Fiduciary Net Position as a Percentage of Total OPEB Liability = (2) / (1)	-	-	-	-
5. Covered-Employee Payroll	\$ 2,019,088	\$ 1,378,079	\$ 1,949,436	\$ 1,372,977
6. Total OPEB Liability as a Percentage of Covered-Employee Payroll = (3) / (5)	11.87%	11.87%	13.86%	13.86%

Notes to schedule:

* Information presented for the years information is available

CITY OF VALPARAISO UTILITIES
Schedules of Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Years *

OPEB Contributions

	2018		2017	
	Water	Water Reclamation	Water	Water Reclamation
Actuarially determined contribution**	\$ 7,929	\$ 5,412	\$ 10,728	\$ 7,555
Actual employer contributions	7,929	5,412	10,728	7,555
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll**	\$ 2,019,088	\$ 1,378,079	\$ 1,949,436	\$ 1,372,977
Contributions as a percentage of covered - employee payroll	0.39%	0.39%	0.55%	0.55%

Notes to schedule:

Valuation date:

**Actuarially determined contributions rates are calculated as of December 31.

Methods and assumptions used to determine most current contribution rate above:

Actuarial cost method	Entry age normal - level percent of salary
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Fair market value
Healthcare cost trend rates	Medical/Rx 8.5% in 2019 to 5% in 2026+
Inflation	2.25% per year
Payroll growth	2.5% to 4.25%
Discount Rate	4.11% as of December 31, 2018

Other information:

None

*Information presented for the years information is available

OTHER REPORTS

In addition to this report, other reports may have been issued for the Utilities. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.